

Message Text

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C O N F I D E N T I A L ROME 4829

EXDIS

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E.O. 11652: N/A
TAGS: EFIN, IT, IMF
SUBJECT: ANDREOTTI CONCERN ABOUT IMF STANDBY CONDITIONS

1. IN MY INITIAL MEETING WITH PRIME MINISTER ANDREOTTI (DETAILS SEPTTEL), HE RAISED POSSIBILITY THAT GOI MAY NOT BE ABLE TO MEET IMF CONDITIONS ON "STERILIZATION" OF VALUE ADDED TAX INCREASE USED TO FINANCE PARTIAL FISCALIZATION OF LABOR COSTS. HE ASKED FOR US SUPPORT IN PERSUADING FUND TO ACCEPT MODIFICATIONS IN POSITION ON "STERILIZATION" IN FACE OF PRESENT DIFFICULT POLITICAL CONDITIONS IN ITALY. THE GOVERNMENT COULD FALL ON THIS ISSUE, HE SAID, WITH ALL THE POLITICAL AND ECONOMIC RAMIFICATIONS THAT WOULD FOLLOW, FURTHER WEAKENING OF THE LIRA, ETC.

2. ANDREOTTI DESCRIBED PROCESS OF STABILIZATION LEGISLATION AS 80 PERCENT COMPLETE WITH DIFFICULTY ARISING IN AREA OF STERILIZATION, WHERE GOVERNMENT WILL LIKELY HAVE TO ACCEPT MODIFICATIONS AS THE PRICE OF OPPOSITION PARTY SUPPORT FOR THE AUSTERITY
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PACKAGE. THOSE MODIFICATIONS HE DESCRIBED AS STILL WITHIN THE GENERAL FRAMEWORK OF THE IMF REQUIREMENT. THE POINTS IN QUESTION IN THE DECREE LAW ARE STRONGLY OPPOSED BY THE LEFT IN PARLIAMENT AND THE UNIONS OUTSIDE. THERE IS AT PRESENT COMPARATIVE LABOR TRANQUILITY IN THE FACTORIES WHICH COULD BE UPSET QUICKLY. ANDREOTTI SAID THAT IN ORDER TO MAINTAIN THE

UNEASY BLANCE THAT NOW EXISTS HE WAS TRYING TO FIND ALTERNATIVES. ONE POSSIBILITY, HE SUGGESTED, WAS THAT THERE MIGHT BE VOLUNTARY CHANGES IN SCALA MOBILE MADE BY THE UNIONS THEMSELVES. HE MENTIONED, AS EXAMPLE, PARTIAL "STERILIZATION" OF URBAN TRANSPORT AND NEWSPAPER PRICE INCREASES IN SCALA MOBILE (WAGE INDEXATION) BASKET.

3. ANDREOTTI OFFERED TO PROVIDE ME WITH A PAPER WITHIN THE NEXT FEW DAYS DETAILING THE ITALIAN POSTION AND AGREED WITH MY SUGGESTION THAT WE MEET AGAIN SOON TO DISCUSS THE PROBLEM IN SOME DETAIL.

4. I EMPHASIZED TO THE PRIME MINISTER THAT I HAD NO AUTHORITY TO INTRODUCE ANY FLEXIBILITY INTO THIS ISSUE. I INDICATED OUR CONCURRENCE WITH THE IMF PACKAGE AND OUR CONVICTION THAT ECONOMIC REFORMS WERE NECESSARY (ANDREOTTI AGREED), BUT OFFERED TO TRANSMIT TO WASHINGTON ANY INFORMATION HE WISHED CONVEYED ON THE OBSTACLES HE IS FACING IN MEETING IMF CONDITIONS.

5. SINCE PROSPECTS FOR RESOLVING ECONOMIC ISSUE AND POLITICAL IMPLICATIONS OF CURRENT IMPASSE ARE NOT VERY CLEAR, AND SINCE ANDREOTTI HAS PROMISED TO PROVIDE ADDITIONAL INFORMATION, I PREFER FOR THE MOMENT TO WITHHOLD ANY RECOMMENDATION ON US REPOSE TO PRIME MINISTER'S APPROACH.GARDNER

NOTE BY OC/T: NOT PASSED FRB.
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